

DIRECTORATE OF INTELLIGENCE

FINANCIAL ISSUES

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Issue*

Status

Comment

1. Create free Euroyen markets, permitting unrestricted yen transactions outside of Japan.

At present, only short-term Euroyen loans are completely liberalized. Japanese corporations, foreign governments and international organizations with good credit ratings have limited access to Euroyen bond markets. The yen/dollar report indicated a Euroyen certificate of deposit market will be created later this year, and foreign companies will gain access to Euroyen bond markets.

Future measures are likely to be carefully crafted to limit the attractiveness of Euroyen markets because Japanese officials fear that growth of these markets will threaten monetary policy control and may lead to unregulated risk taking by banks. Borrowers on Euroyen markets, for example, will be prohibited from sending proceeds back to Japan for a specified time period.

2. Provide foreigners-- whether acting as borrowers, investors or intermediaries--with equal access to Japanese capital markets.

A 1982 law accorded foreign banks full national treatment but yen funding remained inadequate. To remedy this situation, limits on the amount of foreign currency that can be converted into yen were abolished on 1 June. To aid recycling of record current account surpluses, the eligibility requirements for foreigners' yen loans and bonds are being eased. The Finance Ministry also has promised to draft criteria for foreign trust banks to begin managing Japanese pension funds.

Membership on the Tokyo Stock Exchange remains a problem area for foreigners. With the number of seats on the exchange limited to 83, Japanese securities firms enjoy a de facto monopoly. Ways to expand foreign access are under study but the Finance Ministry insists the final decision on membership conditions be made by stock exchange members.

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This matrix was prepared by [redacted] Japan Branch, Northeast Asia Division, Office of East Asian Analysis. Information available as of 18 June was used in its preparation. Comments and queries are welcome and may be directed to the Chief, Japan Branch, Northeast Asia Division, OEA, [redacted]

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3. Liberalize the domestic capital market by removing interest rate regulations, expanding the variety of financial instruments, and ending the segmentation of financial markets.

The Finance Ministry has gradually expanded the number of assets with market-determined interest rates in the last decade and has outlined a six-step plan for complete liberalization over the next few years. Serious consideration is being given to setting up yen bankers' acceptance and treasury bill markets. Barriers separating banking and securities activities are also falling for transactions involving government bond issues.

4. Remove controls on direct investment in Japan.

Within three months the Cabinet is expected to order an end to restrictions on foreign investment in 11 designated companies and in Japanese real estate.

Press play surrounding the yen-dollar working group talks convinced Japanese financiers that domestic liberalization is inevitable. To put themselves in a competitive position for the future freer financial environment, they are requesting--with increasing urgency and frequency--that the Finance Ministry permit them to expand the assets and services they offer. The Ministry has responded positively to most requests and, in the process, the pace of domestic liberalization has quickened. Bureaucrats are, nonetheless, leery of any further acceleration.

The government is currently investigating ways to deal with the remaining area of concern--the transparency of regulations governing direct investment.

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SUBJECT: Japan: Synopsis of Trade and Financial Measures

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